

## Message Text

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ORIGIN ARA-10

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O 102329Z FEB 76

FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA IMMEDIATE

INFO AMCONSUL SAO PAULO IMMEDIATE

AMCONSUL RIO DE JANEIRO IMMEDIATE

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E.O. 11652: N/A

TAGS: EAGR, ETRD, BR

SUBJECT: BRAZILIAN EXPORT INCENTIVES: SOYBEAN PRODUCTS

REF: BRASILIA 11032, 30 DEC 1975

1. REPEATED BELOW IS MOST IMPORTANT SECTION OF REPORT  
PREPARED BY USDA AT REQUEST OF AGRICULTURAL  
POLICY ADVISORY COMMITTEE, SUBCOMMITTEE ON OILS  
AND OIL PROCESSING.COMMITTEE,WHICH ESTABLISHED UNDER TRADE  
ACT OF 1974, CONSISTS OF REPRESENTATIVES OF THE PRIVATE  
SECTORS CONCERNED. COMMITTEE WILL MEET IN WASHINGTON  
ON FEBRUARY 18-19, AT WHICH TIME USDA INTENDS TO  
SUBMIT THE REPORT. REQUEST EMBASSY'S COMMENTS ON REPORT  
BY C.O.B. FEBRUARY 12, ALONG WITH ANY SUPPLEMENTARY DATA  
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YOU WISH TO PROVIDE. INFORMATION REGARDING SOYBEAN OIL

EXPORTS TO MAJOR MARKETS AND THEIR RELATION TO EXPORT INCENTIVES WOULD BE PARTICULARLY USEFUL.

2. BEGIN TEXT. THE FOLLOWING INFORMATION IS DERIVED FROM BRAZILIAN GOVERNMENT DOCUMENTS, TRADE INFORMATION AND OTHER GENERAL SOURCES OF INFORMATION.

#### A. SOY PRODUCTS AND THE IPI AND ICM TAXES

THE TABLE BELOW SUMMARIZES THE INCIDENCE OF THESE TWO TAXES ON THE DOMESTIC AND EXPORT MARKETING. FIRST TWO COLUMNS IPI TAX; SECOND TWO COLUMNS ICM TAX, FIFTH COLUMN CREDIT (IPI PLUS ICM) ON EXPORTS.

##### PRODUCT

|              | DOMESTIC | EXPORTS | DOMESTIC   | EXPORTS | EXPORTS |
|--------------|----------|---------|------------|---------|---------|
| SOYBEANS     | 0        | 0       | UP TO 15   | 13      | N.A.    |
| SOYBEAN MEAL | 0        | 0       | 0          | 5       | N.A.    |
| SOYBEAN OIL  | 0        | 0       | UP TO 45.5 | 0       | 14      |

IT IS EVIDENT FROM THE TABLE THAT SOY PRODUCTS ARE EXEMPT FROM THE INDUSTRIALIZED PRODUCTS TAX, IPI, IN BOTH THE DOMESTIC AND EXPORT SECTORS. THE VALUE ADDED STATE SALES TAX, ICM, IS LEVIED IN THE DOMESTIC MARKET ON SOYBEANS AND OIL ONLY. THE ACTUAL INCIDENCE OF THIS TAX VARIES FROM STATE TO STATE AND BY REGIONS WITHIN BRAZIL. SOYBEAN MEAL, ON THE OTHER HAND, IS EXEMPT FROM ICM TAXES IN THE DOMESTIC MARKET AS AN INCENTIVE FOR INCREASED USAGE WITHIN BRAZIL. THE INCIDENCE OF THE ICM TAX ON EXPORT SALES IS CONSIDERABLY DIFFERENT HOWEVER. BEANS MUST PAY THE FULL 13 TAX RATE WHEN EXPORTED. MEAL EXPORTS ARE TAXED AT A RATE OF 5, A MOVE WHICH WOULD PROVIDE AN INCENTIVE TO CRUSH THE SOYBEANS WITHIN BRAZIL. EXPORTS OF SOYBEAN OIL, HOWEVER, ARE NOT SUBJECT TO THE ICM TAX AT ALL.

THE APPLICATION OF THE IPI AND ICM CREDIT SCHEME TO EXPORTS OF SOYBEAN PRODUCTS ALSO FAVORS OIL SALES. BEANS LIMITED OFFICIAL USE

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AND MEAL BOTH RECEIVE NO TAX CREDITS, WHILE OIL SHIPMENTS BENEFIT FROM A 7 IPI AND A 7 ICM TAX CREDIT. THESE CREDITS, AS NOTED PREVIOUSLY, MAY BE USED TO OFFSET ANY OTHER IPI AND ICM TAX LIABILITIES WHICH THE EXPORTING FIRM HAS FROM ANY TYPE OF ACTION WHATSOEVER. IF THE EXPORTER CAN NOT WRITE OFF HIS CREDITS WITH DOMESTIC SALES, THE EXCESS CAN BE CARRIED OVER TO THE FOLLOWING FISCAL YEARS, TRANSFERRED TO OTHER ESTABLISHMENTS OF THE SAME CONGLO-

MERATE, TRANSFERRED TO SUPPLIERS OR, AS A FINAL RESORT, OBTAINED AS CASH. WHEN THE BRAZILIAN GOVERNMENT WANTS TO EXTEND THE CREDIT INCENTIVE TO A PROCESSED AGRICULTURAL PRODUCT WHICH NORMALLY WOULD NOT BENEFIT FROM THE INCENTIVES BECAUSE THE IPI TAX RATE IS "0" OR "NOT TAXABLE " (EG. SOYBEAN OIL), THE MINISTRY OF FINANCE ISSUES AN ORDINANCE APPLYING AN IPI TAX FOR THE PURPOSE OF CALCULATING THE CREDIT ONLY.

B. SOY PRODUCTS AND THE OTHER INCENTIVE MECHANISMS.

SOYBEAN OIL AND SOYMEAL CURRENTLY BENEFIT FROM A SPECIAL

EXPORT FINANCING SCHEME AUTHORIZED UNDER A CENTRAL BANK RESOLUTION WHEREBY LOANS ARE AUTHORIZED AT AN 8 INTEREST RATE. (THIS BENEFIT WAS ESTABLISHED IN 1971.) CRUSHERS MAY BENEFIT FROM A DRAWBACK SYSTEM WHICH EXEMPTS IMPORT DUTIES FOR MACHINERY DESTINED FOR PRODUCTION OF EXPORTS. INFORMATION AS TO THE REMAINING TYPES OF INCENTIVES APPLICABLE TO SOYBEAN PRODUCTS IS NOT YET AVAILABLE.

THE INCIDENCE OF THE IPI AND ICM TAXES IN BOTH THE DOMESTIC AND EXPORT MARKETS SUGGESTS A PROGRAM TO ENCOURAGE THE PRODUCTION AND EXPORT OF PROCESSED GOODS AS CONTRASTED TO RAW MATERIAL EXPORTS. THE EXPORT PRICE FOR BEANS WILL BE ROUGHLY EQUAL TO THE DOMESTIC PRICE (ALL TAXES INCLUDED) WHILE MEAL EXPORTS SHOULD BE, AT MOST, 5 MORE EXPENSIVE. SOYBEAN OIL, HOWEVER, WILL BE CONSIDERABLY CHEAPER WHEN SOLD IN THE EXPORT MARKET SINCE THE DOMESTIC PRICE WILL INCLUDE THE 15 ICM TAX. THERE IS CLEARLY AN INCENTIVE TO CRUSH THE BEANS DOMESTICALLY, HOWEVER. THE OTHER ASPECT OF THE IPI-ICM TAX STRUCTURE IS THE CREDIT PROVIDED ON SOYBEAN OIL EXPORTS. THE RATE IS ESTABLISHED LIMITED OFFICIAL USE

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FOR THE PURPOSE OF CALCULATING THE CREDIT ONLY AND IS TREATED AS IF THERE WERE AN IPI TAX PAID (NOTE - MANUFACTURED GOODS WHICH ARE SUBJECT TO THE IPI TAX WOULD AUTOMATICLY RECEIVE A CREDIT). THUS THE EXPORT PRICE FOR SOY OIL COULD BE REDUCED BY 14 WITH NO LOSS IN PROFITS TO THE EXPORTER.

THE FULL EFFECT OF THE TAX CREDIT COULD BE DIFFERENT FROM A 14 REDUCTION IN OIL PRICES. THE CREDIT COULD BE USED TO OFFSET THE ICM TAX ON MEAL EXPORTS SINCE OIL AND MEAL ARE JOINT FINAL PRODUCTS FOR A CRUSHER. A CRUSHER MAY, HOWEVER AVOID THE 5 TAX ON MEAL EXPORTS BY SELLING MEAL IN THE UNTAXED DOMESTIC MARKET.

THE EFFECT OF POSSIBLE EXEMPTIONS IN THE INCOME TAX IS

INDETERMINATE IN OTHER THAN SPECIFIC CASES AS IT DEPENDS ON THE RATIO OF FOREIGN SALES TO DOMESTIC SALES UNDER THE FORMULA PRESENTED EARLIER. THUS FOR EXAMPLE, IF A FIRM HAS TOTAL REVENUES OF \$100 (TR) AND EXPORT REVENUES ARE \$45 (ER) THEN THE CORPORATE INCOME TAX FOR THIS FIRM WOULD BE REDUCED BY 45 FROM WHAT A FIRM OPERATING IN THE DOMESTIC MARKET ONLY WOULD PAY. FOR OUR HYPOTHETICAL EXAMPLE THE REDUCTION WOULD BE \$13.50. IF THE INCOME TAX EXEMPTION DOES APPLY TOWARDS EXPORT EARNINGS FROM SOYBEAN PRODUCTS, THEN THERE WOULD BE A DIRECT INCENTIVE FOR FIRMS TO INCREASE THE RATIO OF FOREIGN TO DOMESTIC SALES. HOWEVER AT THE PRESENT MOMENT THE USE OF THE INCOME TAX FOR SOY PRODUCTS IS NOT KNOWN.

THE REMAINING POTENTIAL MAJOR INCENTIVE AVAILABLE IS PREFERENTIAL FINANCING FOR PRODUCTION OF MEAL AND OIL FOR THE EXPORT MARKET. SUCH LOANS ARE EXTENDED ON A PRODUCT SPECIFIC BASIS FOR A TERM OF 240 DAYS AT 8 INTEREST. THE CURRENT MARKET RATE IS AROUND 20 PER ANNUM, INCLUDING THE MONETARY CORRECTION FACTOR (TO COUNTERACT THE EFFECT OF A HIGHINFLATION RATE). THERE ARE ALSO SPECIAL CREDIT LINES AVAILABLE AT 12 AND 16 INTEREST FOR OTHER TYPES OF EXPORT FINANCING. DEPENDING ON THE SPECIFIC INTEREST RATE ON A PARTICULAR LOAN, THE EFFECTS OF THIS INCENTIVE CAN BE QUITE SUBSTANTIAL TO THE PRODUCER/EXPORTER. EACH USE OF THIS CREDIT LINE WOULD HAVE TO BE EXAMINED INDIVID-  
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UALLY SO AS TO DETERMINE THE EXACT AMOUNT OF BENEFIT DERIVED. END TEXT. KISSINGER

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## Message Attributes

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